

# Kluwer Copyright Blog

## What happens if an employee writes code in his “personal time” – Penhallurick v MD5

Jeremy Blum, Jake Palmer (Bristows LLP) · Monday, March 8th, 2021

### Summary

The IPEC has held that an employee produced software in the course of his employment, despite his claims he did most of his work in his own time, at home, and on a personal computer. In the decision, *Penhallurick v MD5 Limited* [2021] EWHC 293 (IPEC), Hacon J suggested that such factors did not make a difference when the nature of the work in question falls within the scope of duties for which the employee is paid.



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This post focuses on Hacon J’s interpretation of the meaning of “course of employment” for the purposes of first ownership of copyright in works created by employees.

### Background

Virtual Forensic Computing (VFC) is a technique of retrieving an image of a computer’s hard disk without writing on it and loading that image onto a virtual machine so that it can be investigated. It is mainly used in police forensics: to analyse contents of a computer without corrupting those contents.

Mr Penhallurick had been variously researching and working on his VFC method since 2002. He began his employment with MD5, a digital forensics company, on 6 November 2006. During his employment he developed a fully automated version of the VFC method and further upgraded versions.

Both parties claimed they owned the copyright in eight works relating to the VFC technique and that their copyright was infringed by the other party. MD5 also claimed Mr Penhallurick was in breach of his employment contract.

There were several agreements between the parties relevant to the dispute, including:

1. The 2006 Agreement – Mr Penhallurick’s first contract of employment;
2. The 2008 Agreement – Mr Penhallurick was given an annual bonus tied to sales of VFC software; and
3. The 2016 Agreement – Mr Penhallurick’s agreement to provide updates and support work after leaving MD5’s employment.

MD5’s primary case was that they were afforded first ownership of the copyright since Mr Penhallurick wrote the VFC software as an employee. Their secondary case was that all past and future copyright was assigned by Mr Penhallurick to MD5 in the 2008 Agreement.

## **First ownership**

### *First and second works*

These relate to source and object code that Mr Penhallurick claims to have developed before his employment began.

On discussing the factual evidence before him, Hacon J considered that any work done by Mr Penhallurick before his employment was likely to have been abandoned when he joined MD5. Accordingly, all work done by Mr Penhallurick on what became the VFC source code, as compiled for use in MD5’s products, began after his employment started.

As a result, Hacon J dismissed the first and second works as not relevant to the claim.

### *Law of first ownership in copyright*

All works in issue were literary works under section 3(1) of the Copyright, Designs and Patents Act 1988 (CPDA). The starting point for ownership of copyright in such works is section 11 CDPA: the author is the first owner (see 11(1) CDPA) unless the author is an employee who creates the work in the course of his employment in which case the employer is the first owner (see 11(2) CDPA).

Mr Penhallurick was the author of all the works. Therefore, as is typical with such disputes, the case for first ownership turned on whether the author’s activities fell within “in the course of his employment” in section 11(2) CDPA.

### *Third and fourth works*

The third and fourth works relate to software and a graphic user interface for the first VFC version. These were created during Mr Penhallurick’s employment.

Assessing whether a work is done in the course of an employee’s employment requires a multi-factorial assessment. Hacon J identified the non-exhaustive list of factors that may be considered

set out in *Mei Fields Designs v Saffron Cards and Gifts* [2018] EWHC 1332 (IPEC):

- a. “the terms of the contract of employment;
- b. where the work was created;
- c. whether the work was created during normal office hours;
- d. who provided the materials for the work to be created;
- e. the level of direction provided to the author;
- f. whether the author can refuse to create the work/s; and
- g. whether the work is ‘integral’ to the business”

In evidence, Mr Penhallurick explained that: “every waking hour of [his] personal time” was spent developing VFC functionality at home; he used his own personal computer system for coding work; and he only copied compiled code to the work machine for testing purposes (see [63]).

Hacon J’s focus was on the nature of the duties for which Mr Penhallurick was employed, and whether the development of the works fell within those. It was clear from the context and the 2006 Agreement that Mr Penhallurick wrote the first VFC version on the understanding that, if all went well, the software would be marketed by MD5. Indeed, Hacon J held that making the VFC software was the central task for which Mr Penhallurick was being paid by MD5.

In addressing Mr Penhallurick’s evidence above, Hacon J pointed out that Mr Penhallurick took to this task with much enthusiasm, taking his work home at times. Furthermore, evidence suggested he had done much of the work during working hours.

According to Hacon J, the proportion of the work done at home versus at work “does not displace the strong and primary indication that it was work done in the course of his employment”: “[w]here it is otherwise clear that the work is [of a nature to fall within the scope of the duties for which he is paid], in my view the place where the employee chooses to do the work will not generally make any difference.” The same analysis applied to Mr Penhallurick’s use of his own personal computer system versus his work computer (see [66]).

Therefore, Hacon J held MD5 to be the first owner of the copyright in the third and fourth works.

#### *The fifth to seventh works*

As for VFC versions 2 to 4 (the fifth to seventh works), following the reasoning for the above findings, Hacon J held they were “created by Mr Penhallurick with the knowledge and encouragement of MD5 and all were directed to making and improving the VFC software product sold by MD5”, for which Mr Penhallurick was paid by MD5 (see [69]). Accordingly, MD5 was also the first owner of these works.

#### *Eighth work*

The eighth work was a user guide also created in this period.

Again, notwithstanding Mr Penhallurick’s evidence that the guide was created by him, in his own time and without input from MD5, Hacon J held its purpose was to promote MD5’s business in the

VFC product. Accordingly, it fell within the duties for which he had been employed. This was not overridden by the location or hours of Mr Penhallurick's work on the user guide.

### **The section 104 CDPA presumption**

Mr Penhallurick relied on this section, which presumes the named author on the published work is the author and that it was made in circumstances not falling within subsection 11(2) (as set out above). It was accepted he was named as author and owner on all VFC software and the user guide.

However, Hacon J followed the decision *Henry Hadaway Organisation Ltd v Pickwick Group Ltd* [2015] EWHC 3407 (IPEC) where Deputy Enterprise Judge Ms Clarke held that the presumption can be rebutted if the court is satisfied the contrary is true on a balance of probabilities. The section does not impose a higher burden of proof.

Accordingly, Hacon J's above findings on copyright ownership were not affected by section 104 CDPA.

### **Comments**

Perhaps the most interesting part of the decision was Hacon J's approach to interpreting "in the course of his employment". Hacon J was keen to look at the purpose for which Mr Penhallurick was employed and what his duties were and was apparently not at all affected by the amount of work carried out on the software that Mr Penhallurick did outside of office hours, at home, and with his personal computer.

Although the dispute was not in the context of the recently imposed home working, it seems to be somewhat forward-looking in its approach that work for an employer can absolutely be performed at home. In other words, the feeling many may have had over the past year seems to be reflected in the context of first ownership of copyright: the line dividing home/personal activity and work is getting harder to draw.

Going forward, when considering whether work is performed in the course of employment or not, one is better served looking at the duties of the employee to the employer, and not where, when or on what the work is performed.

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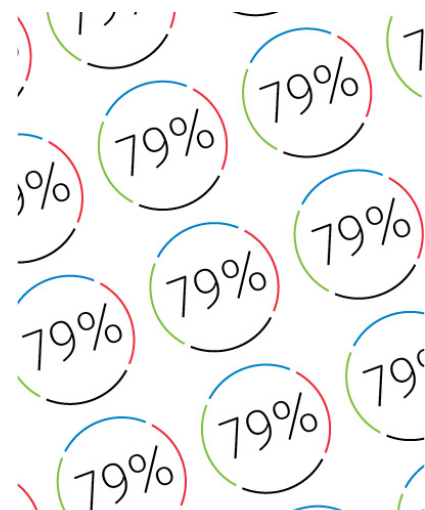
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